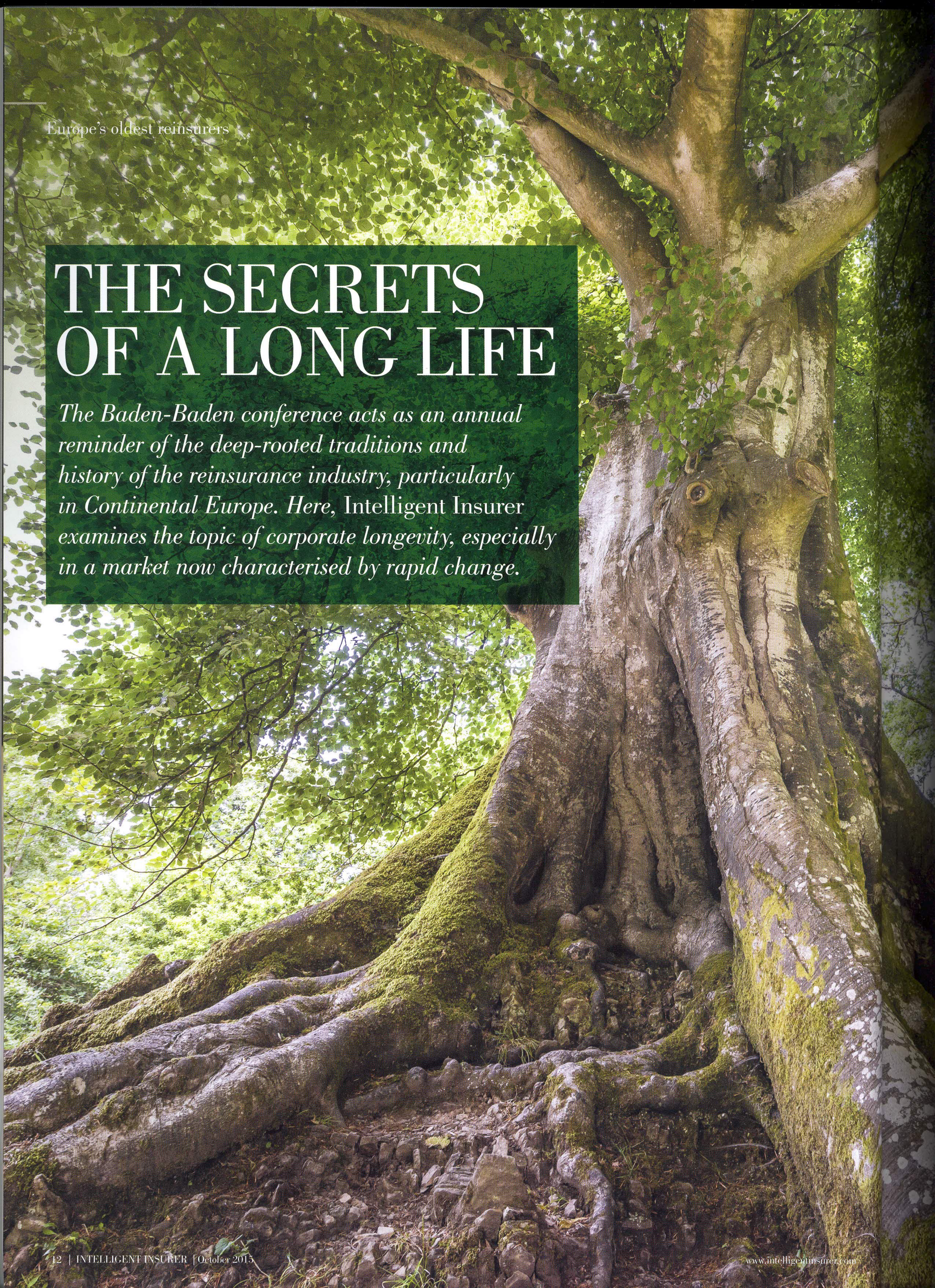
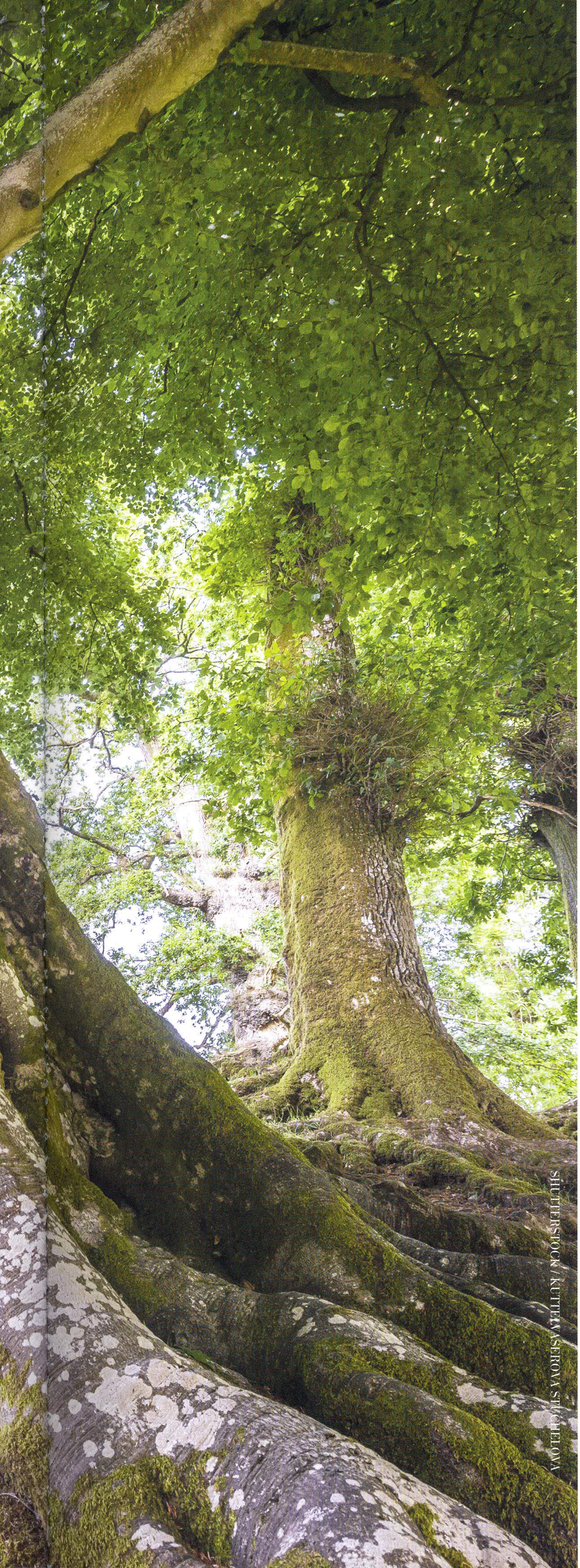
THE SECRETS OF A LONG LIFE

The Baden-Baden conference acts as an annual reminder of the deep-rooted traditions and history of the reinsurance industry, particularly in Continental Europe. Here, Intelligent Insurer *examines the topic of corporate longevity, especially in a market now characterised by rapid change.*

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With a history stretching back more than 325 years, Lloyd's of London clearly wears the mantle of being the oldest entity dedicated to risk transfer in the world. Its origins can be traced back to a coffee house in London in 1688 where some of the first contracts covering ship and cargo insurance were signed.

From humble beginnings, a remarkable history and track record of innovation and tough lessons has originated—one which has helped to shape and drive economic growth in the world.

Yet when you consider the evolution of risk transfer, its increasing sophistication and a growing understanding of the importance of risk spread and diversification, Continental Europe comes to the fore, particularly Germany and Switzerland. Here, companies were born that would ultimately invent and define the concept of reinsurance.

Some are now global institutions, underpinning economic development in every country globally and spearheading innovation in risk transfer in ways that could not have been imagined when they were formed.

The oldest reinsurer in Europe, the world's second largest, celebrated its 150th anniversary two years ago. Founded in 1863, Swiss Re was one of a number of institutions established in Switzerland after the adoption of the Federal Constitution in 1848 (see box below).

Munich Re, the world's biggest reinsurer, was founded some 17 years later in April 1880 by Carl von Thieme (see box below).

THE MIRACLE OF LONG LIFE

In an industry that remains so traditional in many ways, especially in Continental Europe, it might seem unsurprising that two of the industry's most influential companies are so old. Such longevity in the reinsurance industry seems normal.

Yet if compared with almost any metric that measures the average lifespan of companies, the fact that these businesses exist in a similar form today is remarkable—and that they are thriving is almost a miracle.

The lifespan of companies globally is diminishing rapidly. Accurate statistics for Europe are hard to come by, but the following statistics from the US, compiled by Vicki TenHaken, a professor of management at Hope College, illustrate this truth in stark terms.

Her research shows that the average age of companies on the S&P 500 Index has dropped by nearly 50 years since the 1950s: the average age of a company in the S&P 500 in 1958 was 61 years; this decreased to 25 years in 1980, was just 18 years in 2012 and 15 years in 2013.

Today, less than 1 percent of all companies operating in the US are more than 100 years old.

So why is it that Continental Europe is home to so many companies that have survived so long? In fact, though few companies come that close to matching the enviable histories of Swiss Re and Munich Re, they are also far from alone, especially in Continental Europe. R+V Versicherung was

"They become both more heavily regulated and less able to attract top talent—a combination that clearly hinders innovation." Richard Foster

formed in 1922, E+S Ruck in 1923, New Re in 1926, Milli Re in 1929, Deutsche Rück in 1951 and Hannover Re in 1966—to name but a few.

Perhaps the real question is whether such corporate longevity is feasible moving forward in an industry that is changing so rapidly. New capital utilising new risk transfer techniques is reshaping a sector whose traditional players have changed little from the fundamental principles that helped shape them when they were formed.

Richard Foster, executive in residence at Yale Entrepreneurial Institute and a specialist in the subject of corporate longevity, says the principle of corporate longevity is a particularly interesting one in industries enduring rapid change. Indeed, this stems from the fact that one of the secret ingredients of corporate longevity is having the luck to be operating in a sector that changes little.

"There are certain industries that have developed to become critical parts of society," Foster says. "In turn, in some of these sectors, a small number of large corporations come to dominate, and ultimately grow old. The oil industry and many areas of consumer goods, such as soap, for instance, are good examples of this model.

"These are products that have been around for a very long time and they will tend to be dominated by the incumbent players until they are disrupted in some way. The other thing favouring corporate longevity is where these industries also benefit from economies of scale."

Foster's comment about 'until they are disrupted' will strike a chord with many in the industry given current market dynamics. The reinsurance industry is certainly enduring a period of change—does this represent a critical point in the market and a test for its established incumbent players?

It is perhaps an obvious statement to say that companies that endure long term, also succeed because they are able to adapt. This is not always easy, however, Foster says. Truly shifting a business model is much easier said than done, thus partly explaining the current much shorter lifespan of companies in the S&P 500.

"The fact is that any company can keep going with no change to its business model, but there are fewer cases where companies have been able to adjust and adapt to something new," he says.

He cites the example of Exxon Mobil, a company that can trace its roots to 1859 and which dominates parts of the petrochemical industry, but which has failed to become a leader in renewable energy technologies, despite several attempts.

Such instances are not necessarily the fault of management, he says. One of the challenges of running a big company is that they attract high levels of interest from governments and regulators, which can hinder their ability to innovate, while they also find it difficult to attract new and innovative talent, who will be attracted to newer companies and sectors elsewhere.

"As these industries get older and more influential, they attract increasing interest from the public sector and sometimes have to endure large battles, in the courts and otherwise, that can be costly and slow them down," Foster says.

"They will likely be big employers and also seen as being of strategic importance to the country's economy. So they become both more heavily regulated and less able to attract top talent—a combination that clearly hinders innovation."

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IT'S NOT YOU, IT'S ME

Even without such external distractions it is still not easy for large companies to change strategic direction and innovate. Foster says the first reason for this is simply that most companies are too focused on managing and controlling their existing operations. Innovation often sits at odds with this.

The second reason is that in order for true innovation to occur, companies must also close, reduce or walk away from some of their existing activities.

"It is very important for companies to constantly eliminate parts of their operations—otherwise they spend too much time trying to save parts of the business that are diminishing," he says.

"This is actually very hard to do. It is not something you see on the curriculum in business school, for instance. Very few companies do it well.

"There are many reasons for this. Sentiment is a big issue—there is an emotional component to it. Closing a business unit, making people redundant, is hard. People enjoy falling in love, but they find it hard to break up. It is the same with starting businesses and innovating versus closing businesses.

"It is usually very personal. We know the staff and the customers and their families—they are your friends. It is a very difficult decision to make and then execute swiftly."

Yet innovation cannot thrive without this ruthless willingness to cut dead wood, Foster says. "The fact is, while the older, more established companies are grappling with all this, newer companies and start-ups have no such concerns.

"They are completely focused on whatever innovation or technological breakthrough is about to change an industry. It is much easier to change outside a large company than from within it. Start-ups are able to move swiftly and decisively and that is why older and more established firms are often left behind."

In what is clearly a rapidly changing industry, some of the stalwarts of the sector might do well to pay heed to this warning. Not that the likes of Swiss Re and Munich Re are not innovative—the question could be, can they adapt quickly enough and let go of the past quickly enough? □

SOME OF EUROPE'S OLDEST REINSURERS

SWISS RE

In 2013 Swiss Re celebrated its 150th anniversary.

Founded in 1863, Swiss Re was one of a number of institutions established in Switzerland after the adoption of the Federal Constitution in 1848.

A major fire in the town of Glarus in May 1861 highlighted the difficulties the Swiss insurance system had in dealing with catastrophe losses and the need to provide additional cover to insurers. The head of the Helvetia fire and transport insurance businesses formally proposed creating a Swiss reinsurer in 1863. After gaining the support of the Helvetia board, he sought other Swiss partners to join the venture. The world's second largest reinsurer was born.

MUNICH RE

Munich Re was founded in April 1880 by Carl von Thieme. He almost devised the concept of reinsurance as it operates today: he envisaged the company operating independently of insurers and therefore able to spread risks across all geographical regions and classes of business and operate efficiently with standard treaties and in close partnership with its clients. It worked, and business in Germany and the rest of Europe grew rapidly. Five years after it was founded, Munich Re was the world's largest reinsurer.

R+V VERSICHERUNG

R+V Versicherung was formed in 1922. Raiffeisen General Insurance Company and Raiffeisen Lebensversicherung were founded in 1922 and both companies were joined by personal union. R+V Versicherung is one of the largest insurers in Germany.

E+S RUCK

Founded on August 23, 1923, E+S Ruck was initially founded as an insurer offering fire insurance to industrial customers. In 1937 the company was transformed into a reinsurer. Now a subsidiary of Hannover Re, the company is responsible for the business in Germany. It is the second largest non-life reinsurer in the German market.

NEW RE

New Re was founded in Zurich in 1926 and has been part of Munich Re since 1988. It is a property/casualty reinsurer focused on structured reinsurance solutions including derivatives and parametric trigger covers.

MILLI RE

Milli Re was established by İş Bank in 1929 to operate the compulsory reinsurance system and the reinsurance monopoly in Turkey. The main objective of the compulsory reinsurance system was to develop and nationalise the Turkish insurance market which was dominated by foreign companies at the time. Milli Re participates in reinsurance agreements of almost every branch of domestic and foreign companies operating in the market.

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CCR

CCR was created in 1946 when 34 insurance companies in France were nationalised. The role of the state-owned company was originally twofold: to facilitate control of the insurance industry by means of obligatory cessions; and to encourage the coverage of certain risks by carrying out traditional reinsurance operations. These days, the company covers otherwise uninsurable risks but also participates in the international reinsurance markets.

DEUTSCHE RÜCK

Deutsche Rück has been offering reinsurance cover since 1951. It supports the risk management of its primary insurance clients in European markets with tailor-made reinsurance solutions. From its Düsseldorf base, it serves clients in Germany and in Central and Eastern Europe.

HANNOVER RE

What is now Hannover Re was formed on June 6, 1966, as Aktiengesellschaft für Transport und Rückversicherung (ATR) by the Feuerschadenverband Rheinisch-Westfälischer Zechen (FSV) in Bochum. It provided primary marine insurance and reinsurance initially but expanded rapidly in the international reinsurance markets in the first five years. In 1976 the company was renamed Hannover Re.

SCOR

French reinsurer SCOR was founded in 1970, with headquarters in Paris. The group is organised around two main businesses, SCOR Global P&C reinsurance and SCOR Global Life reinsurance, plus an asset management business, SCOR Global Investments. □